represented by a larger or smaller number of shares, or by shares of a larger or smaller denomination, or by a reserve fund upon which they have a claim when all other claims have been settled makes no difference whatever as a matter of academic fact. Apart from the sentiment of the matter, there is no reason why ordinary capital should have any nominal value.

As to the earning power of the company, that, of course, is not affected one whit by the process. The earning power of the company is all in the assets—the plant, machinery and other property—plus the elusive qualities which are bound up in the word 'goodwill' representing the selling power, organisation, and the expectation of future profits. The capitalisation of the reserve simply affects the manner in which the liabilities of the company are arranged, and the existence of a reserve fund merely means that the Ordinary shareholders have a claim to a larger amount than their nominal holding in case of liquidation. It does not matter in the least whether this larger claim is handed to them in the shape of a certificate, since the nominal amount of their claim has nothing whatever to do with the amount that their claim realises to them annually in the shape of dividends, or in the event of liquidation, from the realisation of the company's assets.

In fact, the capitalisation of reserves is sometimes criticised by economic purists as a retrograde step because it seems likely to encourage the directors to be extravagant in the matter of dividends. In the example which we supposed above of the company